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Secret

Economic Intelligence

A Staff Survey

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DCI/ICS/PRD

May 1974

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31 May 1974

MEMORANDUM FOR: National Intelligence Officer for Economics
SUBJECT : A Staff Survey of Economic Intelligence

1. In his memorandum to the President on 6 September 1973, the DCI specified the steps that he would take during a four-to-eighteen month period with respect to the intelligence community's objectives. Objective E states that "The provision of intelligence and its utilization must enhance the formulation of the foreign, military and economic policies of the U.S. Government and the planning for and conduct of military operations by U.S. forces." Subsumed under this objective are several tasks he set for himself with respect to economic intelligence that he was to complete this fiscal year. Subsequently, Mr. Leo Cherne in his report of December 1973 to the President on Economic Intelligence recommended that the "Board should evaluate this plan as soon as available with reference to the adequacy of its proposed approach to satisfying contemporary, priority economic intelligence requirements of the U.S. Government."

2. This spring, in preparation for your arrival, I undertook a survey of economic intelligence, which I am hereby providing you. So that the economic intelligence "plan" can be issued this summer, I have keyed the survey to the tasks cited above, and at the same time indicated, as appropriate, actions to date and proposed actions. Thus, in effect, this survey is an approach for the intelligence community to take in the course of the next year. In so doing, it addresses the problems raised by Mr. Cherne.

3. You will have a major role in implementing and modifying, as necessary, this approach. In the meanwhile, many actions have already been taken and others are underway. Because there is an NIO for Energy that topic receives only passing treatment in this paper.

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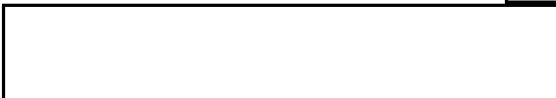
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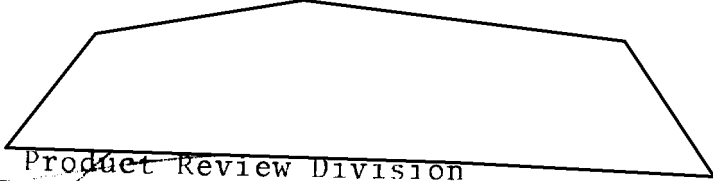
4. I owe a debt of gratitude in the preparation of this study to Dr. Maurice Ernst, Director of CIA's Office of Economic Research, and [redacted] Chief of the Intelligence Community Staff's Product Review Division. I discussed with them the complete text and benefited greatly from their advice and suggestions. I am also deeply grateful to many others who offered constructive criticism and technical advice, including Mr. William Morell, Special Assistant to the Secretary of Treasury for National Security Affairs, and [redacted] of the Intelligence Community Staff. The findings and recommendations, however, are my own and do not necessarily represent the views of the Intelligence Community Staff or any other entity of the intelligence community.

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5. In the appendix I discuss at some length a number of unresolved problems of a highly sensitive nature. Accordingly, this survey is being issued in two versions. Most recipients outside CIA headquarters building will receive one that is SI only: it will not contain either the appendix or pages 25a and 25b dealing with COMIREX.

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A logo consisting of a trapezoidal shape with a horizontal line across its middle.

Product Review Division
Intelligence Community Staff

Attachment: Economic Intelligence Survey

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ECONOMIC INTELLIGENCE

A Staff Survey

May 1974

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ECONOMIC INTELLIGENCE

A Staff Survey

May 1974

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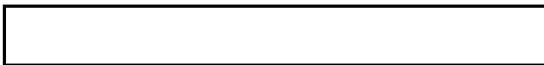
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SECTION I. INTRODUCTION

Background

On 5 November 1971 the President directed a number of steps be taken to improve the efficiency and effectiveness of the US foreign intelligence community. Concomitantly, he undertook a reorganization of the intelligence community, including the addition of a representative of the Secretary of the Treasury as a member of the reconstituted United States Intelligence Board. In an accompanying letter to a number of senior national officials, he spelled out his rationale for promulgating these measures. This included the attainment of "an improved intelligence product," entailing an improvement in its quality, scope, and timeliness. Moreover, the intelligence community was to take into account the greater significance of "financial, commercial, and economic factors."

Then, on 15 December 1971, the President's Foreign Intelligence Advisory Board (PFIAB), in a report to the President, stated, "It is essential that the intelligence community be reoriented to support these new national economic considerations." A number of steps have been taken since then to support this goal but more remains to be done.

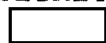
The DCI, in a memorandum to the President on 6 September 1973, enumerated the specific steps he would take over an eighteen-month period "to increase substantially the efficiency and effectiveness of the intelligence community." Objective E requires that specific steps be taken to enhance the formulation of the economic policies of the US Government:

- identify during the second quarter of FY 1974 the current needs of the users of foreign economic intelligence;
- determine, in coordination with other Federal agencies, what contribution the intelligence community can make in this area;

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- determine appropriate resource levels and, through USIB, assign responsibilities for collection and production in this area;
- provide for implementation of this program by the end of the third quarter of FY 1974.

The DCI's program, or "plan," should answer most of the unresolved recommendations of the PFIAB's December 1971 report. It is also responsive to the Board's follow-up Report on Economic Intelligence prepared by  on 7 December 1973. The latter report concluded with a pertinent recommendation: "The Board should evaluate this plan as soon as available with reference to the adequacy of its proposed approach to satisfying the contemporary, priority economic intelligence requirements of the U.S. Government."

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Economic Intelligence Defined...

"Economic Intelligence" is difficult to define. It is an abstract term that, depending on circumstances, includes negotiating strategies, short- and long-term outlooks, descriptive and speculative information, plant and investment data, commercial information, and a broad spectrum of research analyses. Its information base encompasses the political, military, technological, as well as the commonly accepted economic. Its product is used by policymakers, by negotiators, by staff planners, and by analysts of all hues.

Often economic intelligence is said to encompass all economic, financial, and commercial information on foreign economies. But, this neat and simple characterization inadequately indicates the means by which economic intelligence is integrated with the policy-making and implementation processes. Accordingly, it is probably more useful to define the subject in terms of the end-product. This, in turn, comprises those studies, analyses, evaluations, estimates, forecasts, and interpretations that are prepared by the intelligence community in support of the formulation and execution of US foreign economic policy. Subjects covered include foreign trade, international investments and technology transfers, the world monetary system, access to fuels and other raw materials, and traditional national security topics such as military expenditures.

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...and Placed in Perspective

As international economic affairs have become increasingly important to US policymakers, the demands on intelligence for the collection, analysis, and evaluation of economic information have broadened greatly. Traditionally, the economic entities of the intelligence community were largely concerned with the economic basis for threats to the United States-- in Khrushchev's words, "the means of burying" us. Today they focus on foreign economic plans, policies, and developments having a substantial, present or potential effect on US national interests.

Although this new approach can include almost any kind of foreign economic information, it is far from universal. Economic information, research, and analysis becomes economic intelligence only if it is currently or potentially necessary to the formulation or execution of US national policy. Usually excluded are the routine collection and collation of economic data from the open media and research in support of private US interests. More and more the function of economic intelligence is being recognized as one that provides key ingredients of the policy support package, such as:

- collection of economic information not available from popular sources;
- analysis of economic information from all sources specifically related to US policy concerns.

The need for economic intelligence is less predictable than are other types of intelligence. Some of the requirements for economic intelligence support are reasonably stable--for example, economic research on denied areas. But others are constantly changing as a result of changing world market conditions and policy concerns.

Two other points are worth noting. Economic policymakers turn to the intelligence community for non-economic-intelligence support too: e.g., biographic information. And, of course, much of their over-all support comes from outside the intelligence community.

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this effort have been established to meet other objectives. It is appropriate that the collection efforts be multipurpose. Within the intelligence community, economic intelligence is often a joint product with other intelligence.

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The Indivisibility of Intelligence: Joint Efforts/Joint Costs/Joint Products

The second PFIAB Report on Economic Intelligence, December 1973, notes a number of "economic" developments in the past two years to substantiate the Board's urgent call for more effective "economic intelligence." In particular, it cites several international currency crises, the substantial US dependence on foreign sources of supply for petroleum and other vital resources, the US sale of grain to the Soviet Union, and US technology transfers to the Soviet Union. By this juncture it should be apparent that international economic policy is increasingly interrelated with the national security. It should be equally evident that export controls on US agricultural commodities and an embargo on exports of crude oil to the United States from the Persian Gulf area involve more than US economic relations with Japan and Saudi Arabia, respectively. Indeed, although the Arab oil embargo had a wrenching economic effect on the United States, it was in reality, a political weapon in the hands of those who wielded it. Clearly, the intelligence community must deal with a variety of problems that transcend the purely economic. It must, in fact, contend with subjects which, together, might be termed "hyphenated-economic intelligence:" military-economic (arms sales), scientific-economic (transfer of technology), political-economic (broad policies; economic measures used as political weapons), and socio-economic (growing population pressures on raw material resources).

In making determinations of appropriate resource levels, intelligence program managers will have to translate national needs in these areas of hyphenated-economic intelligence into organizational directives. A USIB agency or department may not necessarily need x more slots to meet the growing needs placed on it by the Washington economic community. Instead, this requires the recognition that requirements for intelligence concern: internal and foreign economic policies, programs, and negotiating positions; motivations and developing positions of individuals, interest groups, and separate governmental bureaucracies; and economic policy intentions, attitudes, strategies, and proposed actions of key governmental and other decision-makers--all as they relate to matters affecting US economic interests.*

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In a letter of 16 May 1973 to Admiral Anderson, Chairman of PFIAB, the DCI, James Schlesinger, in discussing the US economic effort, said about [redacted] of the analytical (product) resources and about [redacted] of the collection resources of the intelligence community were devoted to economic intelligence. He stated he did not have much confidence in these figures because they were based on CIRIS (Consolidated Intelligence Resources Information System) data for resources devoted solely to economic intelligence. Nonetheless, CIRIS has again been tapped to identify the costs related to economic intelligence, but this time with the recognition of the relevance of joint efforts, costs, and products.

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The National Intelligence Program (NIP) consists of three major programs, those of the CIA, the State Department's Bureau of Intelligence and Research, and the Consolidated Defense Intelligence Program. The last concerns NSA, DIA, the Service intelligence organizations, [redacted]

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[redacted] The NIP does not include the Foreign Service of the United States, which yields us the greatest amount of useful information, and often at the lowest cost to the US Government. The appropriate data can be factored in, however,

For FY 1974, derived from "CIRIS 1973" and combining the NIP and the Foreign Service, those costs directly targeted against economic subjects are [redacted] of collection (the Foreign Service being allocated entirely to collection); [redacted] of processing; and [redacted] of production [redacted]

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[redacted] All told, economic intelligence as a percentage of the NIP plus Foreign Service is [redacted] Yet, these figures are manifestly incomplete: Much of the relevant data is omitted, because--quite sensibly--program managers lump economic intelligence together with political and/or military intelligence.



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It is estimated that [REDACTED] of the NIP (plus Foreign Service efforts) is devoted either to economic subjects or to categories of information that include economics.* This is probably a more meaningful depiction than arbitrarily apportioning subjects that often cannot be separated. With this realization, the issue of resource levels takes on new meaning and new significance. Eventually, new organizational relationships--lending themselves to more profitable interdisciplinary endeavors--may well follow.

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New Directions Since 1971

[REDACTED]

Deputy Director for Intelligence (DDI), the USIB Economic Intelligence Committee (EIC) was charged with responding to the OMB inquiry. This USIB committee, which traditionally had sought membership from the non-USIB agencies and which had always limited its focus to the communist world, would examine issues whose major relevance was West-to-West relationships.

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In June 1972, USIB approved the report, which had been drafted by a working group composed of representatives from CIA, State, Treasury, Commerce, and the Council on International Economic Policy (CIEP). They had started their labor with a mutually-agreed premise:

Events of 1971 "demonstrated the crucial role that international economic, financial, and commercial considerations play in the formulation and execution of US policy..." So policy-level officials in all economic departments and agencies of the government need to be provided with the most timely, relevant, and complete economic-intelligence support.

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Thereupon, the EIC Chairman (who is also Director of the CIA/DDI Office of Economic Research [D/OER]) established a Subcommittee on Requirements and Coordination, whose purpose is to make economic intelligence requirements more closely reflect the interest and needs of all departments and agencies of the Executive Branch and to achieve greater responsiveness to these requirements. As a result, during FY 1973 the principal recommendations it was tasked to carry out were satisfied. (These are fully described in Section II.) Each EIC representative of the non-USIB agencies can now receive the classified information he requires to carry out his responsibilities. Where necessary, additional clearances have been granted. The physical facilities of each non-USIB agency have satisfactorily passed security muster. Thus, sensitive intelligence information cables and reports published by CIA's Directorate of Operations (DDO), [REDACTED] are now disseminated to the top policymakers of the Washington economic community.

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In addition to the EIC initiatives, important measures have been undertaken by the DCI, his Intelligence Community Staff (ICS), Treasury, and components of the intelligence community concerned with economic intelligence. These are discussed in the following two sections.

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SECTION II. THE IDENTIFICATION OF USERS' CURRENT
NEEDS FOR ECONOMIC INTELLIGENCE

The Economic Intelligence Contribution Today...

The Federal government structure for expressing and responding to needs for economic intelligence is neither coherent nor well-organized. A multiplicity of departments and agencies participate in the formulation and execution of US foreign economic policy. To a large degree, this fragmented market determines the intelligence community's unstructured service: economic reports and analyses flow from the intelligence community to consumers at all levels via a host of channels. NSA, State, CIA, and to a lesser extent Treasury and DIA distribute field reports directly to many of the same officials who subsequently receive "finished" intelligence analyses, often based, at least partially, on those same field reports.

At the national level the principal councils eliciting intelligence support are the National Security Council (NSC) and the Council on International Economic Policy (CIEP), the latter, until recently, falling under the Council on Economic Policy (CEP). Yet, central control and direction of economic policy are often not evident, with the result that the intelligence community's inputs are often ad hoc. Additionally, the action is sometimes in other arenas, such as the Bennett Group -- chaired by Treasury's Under Secretary for Monetary Affairs -- for monetary policy, and a steering group chaired by the President's Special Representative for Trade Negotiations (STR) for preparation for trade negotiations. A further complication is that the intelligence community is at times either excluded from, or only partially aware of, the decision-making processes in these bodies on current issues. Indeed, some economic policymakers are consumers of intelligence information and analyses only reluctantly, if at all.

As for the working levels in the departments and agencies, they too have mixed emotions about the relevance or usefulness of "objective" economic intelligence. The major entities engage in their own research, as defined above. Not unexpectedly, departmental loyalties and rivalries lead to less than full exchange of information and analyses from non-USIB to USIB agencies and among the former. For example, observations of Treasury attachés often are given either very limited or no distribution outside of Treasury. Still, most of the agencies and groups involved with economic intelligence recognize that they have information needs in common, although for different analytical purposes.

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The White House family of EIC participants, especially CIEP, STR, and the Council of Economic Advisers (CEA), has little or no research capability. Therefore, they more readily turn to the intelligence community, in general, and the CIA's Office of Economic Research, in particular, for analytic support.

Of course, the great bulk of the basic information base is available from reports originating in US posts abroad and from open source materials. All members of the Washington economic community, USIB and non-USIB alike, rely heavily on field reporting and analysis based on personal contacts in official and private circles. National Intelligence Estimates (approved by USIB and issued by the DCI) and study memoranda (NSSMs and CIEPSMs prepared under the direction of NSC and CIEP) are the products of interagency efforts and often contain an economic intelligence input. In most instances, however, contributions to international economic policy issues take the form of memoranda prepared in Washington in response to specific requests.

Over the years, CIA's OER, which has the major portion of the intelligence community's analytical resources and which accounts for the bulk of the output in economic intelligence production, has disseminated its finished intelligence memoranda, on the one hand, to specific high-level consumers as so-called S-projects and, on the other hand, to a wider audience as Intelligence Memoranda and Reports. In 1973 this Office introduced the Intelligence Brief, in reality an upgraded S-project, and two weekly publications that receive broad dissemination in Washington and selected dissemination overseas: The Economic Intelligence Weekly and International Oil Developments. All told, about 70 per cent of OER's finished intelligence production responds to specific requests, and much of the remainder bears directly on policymakers' obvious needs. Indeed, the International Oil Developments was instituted in response to a specific NSC request that arose from CIA attendance at an inter-agency NSSM meeting. For the most part, then, the analytical requirements system has developed informally through direct contacts between producer and consumer. In an unstructured policy environment, an informal network is the most utilitarian: a highly structured requirements system would have little chance of success.

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What has been said for OER applies in the main for the other analytical entities of the intelligence community. State/INR has only about one-fifth of OER's economic resources. CIA's Office of Strategic Research and DIA concentrate exclusively on the military-economic area (transportation and military expenditures). Treasury's Office of the Assistant Secretary for International Affairs (OASIA) has a small research staff, performing basic analyses of balances of payments and other economic topics. Its policy officers, however, do contribute to a number of office publications, one of which receives relatively broad dissemination. OASIA's "WEEKLY HIGHLIGHTS" is sent to named addressees at State, AID, Commerce, Agriculture, OMB, CEA, FEA, Export-Import Bank, and CIA. While Treasury's National Security Affairs staff (ONS) participates in the NIE process it has only a minimal research capability. It currently acts as an intermediary between other elements of the intelligence community and the CEP member agencies.

Lastly, a word about current economic intelligence. In January 1974 the DCI instituted on a trial basis the National Intelligence Daily (NID). Less than 40 copies are disseminated to the most senior policymakers of our government every day but Sundays and holidays. Economic consumers include the Secretary and Deputy Secretary of Treasury, the Director of OMB, the Executive Director of the Council on International Economic Policy, and a senior staff member of the National Security Council. In most instances, the material related to economic issues is carried in the National Intelligence Bulletin as well, which reaches a national audience six times each week.

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On occasion, DIA's Intelligence Summary and Daily Intelligence Bulletin, published six times per week for the defense establishment, carry items on foreign military sales. State's Bureau of Intelligence and Research (INR) devotes its current support to in-house consumers in the form of Intelligence Notes and Intelligence Briefs, only a small number of which are prepared by its Office of Economic Research and Analysis. In addition, as indicated earlier, CIA's DDO issues Intelligence Information Cables--even those that are sensitive--disseminating them, as a State's traffic, to a growing number of senior policy officials in the Washington economic community.

A rehearsal of the variegated means the intelligence community employs in an attempt to target its production to the needs of the policymakers--and it is a moving target--does not complete the loop. Mr. Cherne, in the December 1973 PFIAB report, notes, "...one of my most disturbing observations

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is the near-total absence of the evaluative feedback from the user to the producer." Steps have been and are being taken to respond to this criticism. High-level guidance is useful, and evaluative feedback sorely missed. But, on a day-to-day basis, continuing, largely informal, direct customer contacts will remain the practicable mode of conducting business.

...and Tomorrow

As will be outlined below, this paper proposes the adaptation of two interconnecting mechanisms to relate the economic policymakers and the intelligence community: the National Security Council Intelligence Committee (NSCIC), including its Working Group, and a reoriented Requirements Advisory Board (RAB). High-level representation will be provided as applicable by the key economic policy entities of our government--Council on International Economic Policy, Council of Economic Advisers, and the departments of State, Treasury, Commerce, and Agriculture, as well as by those concerned with trade and financial flows, and the continuing "energy challenge." Agriculture, for example, would be invited to join in any of the deliberations on shipments of feedgrains to the Soviet Union. And CIEP would participate in any NSCIC discussion of the Key Intelligence Questions to assure that worldwide interrelationships, both regional and functional, are considered.

The largely informal network of producer-consumer contacts will be supplemented by formal links with policymakers in order to gain more timely guidance and better feedback. In particular, the intelligence community, probably represented by the new National Intelligence Officer (NIO) for Economics, should gain observer status on the Bennett Group, the successor to the Volcker Group. (So long as the United States engages in international monetary negotiations, it is likely that it will require such a high-ranking body to determine policy on international monetary issues.) As a prelude to policymaking, it engages in evaluations; for instance, an examination of various proposals for monetary reform. The intelligence community can make a useful input here by providing insights into the thinking of similar groups in other countries as well as estimates of likely reactions to our proposals once they are surfaced.

The National Advisory Council on International Financial and Monetary Policy (NAC) is chaired by the Secretary of the Treasury and includes the Secretaries of State and Commerce, the Chairman of the Board of Governors of the Federal Reserve System (FRB), and the President of the Export-Import Bank. It was established in 1945 by the Bretton Woods Agreement

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Act to coordinate the policies and operations of the US representatives on international financing institutions such as the IMF, and to review the transactions of the Export-Import Bank, among other functions. For the most part, the work of the NAC and its subordinate structure is of an operational nature. It does, however, from time to time engage in analytical work. Moreover, it submits an annual report to the President and to the Congress, whose main purpose is to discuss in some depth specific international monetary and financial policy issues. The NIO/Economics and the Treasury's Special Assistant to the Secretary for National Security Affairs should explore with the Director of the NAC Secretariat the utility of ad hoc representation by the economic intelligence community. To date, the FRB and the Export-Import Bank have only very loose ties with the intelligence producers,

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With the cooperation of State and Treasury/ONS, OER is now producing monthly a chronology of upcoming action-forcing events in the economic area that may require intelligence support. At the same time, this Office is increasing its interdisciplinary meetings with analysts of other components of the CIA, e.g., Office of Scientific Intelligence. In the coming fiscal year, in concert with the NIO/Economics, this Calendar of Economic Events can be utilized to broaden such meetings to include their counterparts in other intelligence organizations.

The NIO/Economics will be the DCI's principal staff officer in the economic field, operating through command channels to stimulate collaboration of all elements of the intelligence community on substantive problems. He will also participate in the maintenance and establishment of customer relations and consultant assistance, and in the definition of objectives. And working in concert with the Intelligence Community Staff, he will assist in the evaluation of performance and so make an impact on resource allocation and management decisions.

A major contribution of the NIO/Economics will be to organize an effective estimate process, making use of OER, the rest of the Washington economic community, and outside consultants. Such an approach entails at least two requirements: (1) NIEs have to be linked more closely to current NSSM/CIEPSM planning procedures, and (2) selected non-USIB economic agencies have to participate in the drafting sessions, chaired by the NIO/Economics, and in the USIB discussions in their area of interest. These agencies include -- depending on the NIE topic -- Commerce, Agriculture, FRB, Tariff Commission, and others.

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Apart from diminishing opposition to intelligence support, this cooperative and comprehensive approach should guarantee that economic factors are given appropriate consideration in primarily political and military estimates and vice versa. The number of purely economic estimates handled in this manner, however, would be considerably smaller than the number of political and military estimates reviewed by USIB. Thus, our leit-motif is the achievement of a widening circle of non-USIB agencies in the economic intelligence process. This will be, on the one hand, our best assurance that the economic intelligence output will continually be redirected toward the changing needs of the user agencies, and, on the other hand, will enable the intelligence community to husband its scarce resources by obtaining informational, and on occasion analytical, contributions from those best able to provide them.

National Security Council Intelligence Committee

Among the improvements in the intelligence community directed by the President on 5 November 1971 was the establishment of a National Security Council Intelligence Committee (NSCIC). According to the White House press release, "The Committee will give direction and guidance on national intelligence needs and provide for a continuing evaluation of intelligence products from the viewpoint of the intelligence user." In the intervening period, membership and participation in NSCIC and its Working Group have changed. Of interest here, the Under Secretary of Treasury for Monetary Affairs has recently been added to the former as the first de facto representative of the Washington economic community. The NSCIC is to play a central role in the derivation of Key Intelligence Questions (KIQs), and in the performance measurement -- KIQ Evaluation Process -- which ther follows.

KIQs

Action to Date. -- On 4 January 1974 the DCI issued his first compilation of Key Intelligence Questions -- those for FY 1974 -- as guidance to the intelligence community for the collection and production of intelligence on subjects of major importance to national-level intelligence consumers. This was the culmination of a process that had been under way for seven months, during which time the membership of USIB and NSCIC, and the NSC staff, were polled by the DCI's Intelligence Community Staff. In addition, the Special Assistant to the Secretary of the Treasury for National Security Affairs, Treasury's USIB representative, made a useful input on the basis of his discussions with the CEP members.

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This first set of KIQs contains 71 questions that are directly related to specific upcoming policy-decision requirements. They do not represent an across-the-board review of everything of importance to the intelligence community and to the users of intelligence. Of the 71, 11 are identified as economic. These deal with [REDACTED]

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Furthermore, several other KIQs contain hyphenated-economic-intelligence tasking: in particular, [REDACTED]

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[REDACTED] Providing economic intelligence has become a high priority effort.

Proposed Action. -- The KIQs for community use in FY 1975 will be drafted by the DCI's National Intelligence Officers and approved by NSCIC. With respect to economics, the NIOs for Economics and Energy will incorporate the senior-level guidance of the Requirements Advisory Board (see below), which will function under NSCIC auspices.

KEP

Action to Date. -- As has been indicated, a principal raison d'être for the KIQs is that they provide a means for conducting a post audit of the performance of the intelligence community and of its individual agencies. To enable senior management to accomplish such an evaluation, the Intelligence Community Staff, in February 1974, implemented the Key Intelligence Questions Evaluation Process (KEP). Because the first performance period is truncated and because KEP itself is subject to modification to make it more effective in the future, only 12 of the 71 KIQs have been selected for the full process. Among these are [REDACTED]

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[REDACTED] The NIO/Energy has completed an assessment, called a "Baseline Report," for his assigned KIQ. It includes a summary of what is known and not known about it, uncertainties in knowledge and differences in interpretation, and listings of

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principal information and analytical deficiencies, despite continuing collection and research, which antedated and will postdate the life span of the KIQ. The NIO/Economics was selected in early March 1974; thus, completion of his Baseline Reports has been aborted.

Proposed Action. -- In late FY 1974 the DCI will complete his review of the Baseline Reports for the KIQ pilot program. Performance reports on these KIQs are not due until the end of the 1st quarter of FY 75. If everything goes well, in FY 75 all the KIQs will undergo a performance test. At that time, the RAB, possibly reconstituted as a special working group of NSCIC, will, as appropriate, work with the NIO/Economics to provide continuous evaluation and regeneration of the KIQs.

Requirements Advisory Board

RAB was established by Secretary Shultz, as Chairman of the Council on Economic Policy, in February 1973. His then Special Assistant for National Security Affairs, John L. Hart, was its Executive Secretary; its membership comprised policy-level officers from Treasury, State, CIEP, CEA, STR, and Commerce plus the D/OER, who is also chairman of the EIC, and it was chaired by CEP Executive Director Kenneth Dam, who has since returned to the University of Chicago. The purpose of the Board was to formulate only those economic intelligence requirements whose needs would justify additional intelligence collection, and by "intelligence" Hart especially meant information that is, at least in part, gathered by irregular means, i.e., clandestine sources and codeword materials.

Action to Date. -- During the spring of 1973 the members achieved a consensus on the two international economic problems that they did not believe were receiving adequate coverage.

25X1  On 15 May 1973 the full Board and Secretariat, convening in the White House, formally approved them. The members also agreed that the process would be an ongoing one and over time they would expect to address themselves to additional requirements of similar caliber. Because RAB believed that additional collection was necessary, the requirements were forwarded to DCI Schlesinger by Dam. Later, on 29 June 1973, they were passed on to the Director of NSA for his comments (see below). At the same time, these requirements were incorporated into the formulation of the first set of economic KIQs.

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Hart left government the following month and, since then, his successor, William Morell, has chosen to canvass the membership on an informal basis. But, [REDACTED] in his recent economic intelligence report, notes that "the Board's 1971 report recognized the need for an institutional mechanism capable of articulating the intelligence requirements of U.S. economic policy-making organizations...the RAB...appears organizationally well suited to satisfy this purpose."

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Proposed Action. -- There is general agreement with [REDACTED] that there is a need for a RAB-like mechanism. Even though international economic policy is increasingly inter-related with the national security, NSCIC by itself cannot and should not fill the void. Not all high-level economic objectives should be brought to the attention of it or its Working Group. Many financial, commercial, and trade matters would have little interest to them. Yet, it is equally true a complete bifurcation [REDACTED]

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[REDACTED] would have significant drawbacks. Economic matters that have national security implications might not come to the attention of the non-economic agencies who have a "need to know."

The purview of a rejuvenated RAB will no longer necessarily be limited to covert intelligence matters. Foreign Service reporting, in particular, will be scrutinized too. When the

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RAB makes a recommendation on a matter that has national security implications, its chairman will have the option of recommending that it be placed on the agenda of either the NSCIC or its Working Group. This approach not only will result in "exposure" for important economic intelligence requirements but also will tend to provide a needed blend of security and economic inputs with respect to intelligence.

Insofar as RAB's organization is concerned, the naming of a new chairman and new executive secretary or executive director will be deferred until the summer, by which time the NIO/Economics will have been on board for a reasonable period. More importantly, the link between RAB and EIC will have to be made clear. Such determinations will entail definitions of the respective roles of the EIC Chairman, the DCI's NIO/Economics, and Treasury's Special Assistant for National Security Affairs, all of whom will have principal parts to play. In any case, the RAB charter membership will undoubtedly be augmented by ad hoc invitations to representatives of the other economic agencies and departments, e.g., Agriculture and FEA, as appropriate.

Economic Intelligence Committee

As indicated in the introduction, USIB's Economic Intelligence Committee has been the principal institutional mechanism in this field since early 1972. During this two-year period much of the basic spadework has been completed. The concerned agencies are now able to consider further measures, including those enunciated in this plan. As for the topic of this section, users' current needs, the EIC is performing and undoubtedly will continue to perform a singular role with respect to DCID 1/2 and providing guidance to the Foreign Service. Moreover, it soon will strengthen its experienced secretariat--the ICS Economic Support Officer has been designated Executive Secretary of the EIC--so that the EIC can get similarly involved with respect to NSA, and eventually, perhaps, CIA's DDO.

Director of Central Intelligence Directive No. 1/2

DCID 1/2 establishes US Foreign Intelligence Priorities in accordance with NSCID No. 1. In contradistinction to the KIQRs, which apply only to matters of policy-decision interest

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during the present fiscal year, the comprehensive topic/country/priority matrices in the Attachment to DCID 1/2 are intended to provide over-all guidance for intelligence planning and resource allocation in the FY 1975-1979. Thus, the DCII is a listing of intelligence of longer term or continuing importance or interest to civilian and military users of intelligence.

Action to Date. -- That portion of DCID 1/2 concerned with economic intelligence was discussed with the EIC Chairman at the time of its annual review during the winter of 1972-1973 to assure that the interests and needs of non-USIB agencies were considered in its preparation. The EIC Subcommittee on Requirements and Coordination, through a working group composed of the members from Commerce, State, Treasury, and OER, was intimately involved in the on-going effort of the DCID 1/2 Ad Hoc Working Group (chaired by a senior officer of the DCI's Intelligence Community Staff) to update the directive.

The economic topics were completely rewritten. The revised DCID of March 1974 contains nine of them under three sub-categories: Economic Policy and Motivation (internal and foreign economic policy, and dynamics of economic-policy formulation), Business Activities and Competition (business activities and conditions, competitive commercial threats, and activities of multinational corporations), and Economic Capabilities and Vulnerabilities (economic data and trends, economic capabilities, new technologies and products, and economic vulnerabilities). As a result, the present directive clearly reflects the continued increase in the priority of economic intelligence for national policymakers as well as making the economic topics more precise and complete. Notably, where the preceding directive had no items rated of critical importance to US political, economic, and military interests, the current directive has 29 topic/country scores of "2" in the Economic category.

Proposed Action. -- DCID 1/2 calls for an annual review of the intelligence topics and their priorities. Presumably, a task force will be assembled this summer to make revisions by December 1974, with the view of publishing the next version early in 1975. The NIOs will be actively engaged in the exercise, and the deliberations of the RAB will doubtless be reflected in the EIC inputs.

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Guidance to the Foreign Service via CERP

The Combined Economic Reporting Program (CERP) of the Executive Branch is administered and coordinated by the Foreign Economic and Commercial Reporting Division (REP) of the Bureau of Economic and Business Affairs, Department of State. It provides a vehicle through which central coordination is maintained over the economic guidance and requirements levied on Foreign Service posts by many Washington departments and agencies, most of which are not members of the intelligence community. The program encompasses schedules and ad hoc requirements, the procurement of publications on foreign economies, and voluntary reporting. According to an OMB staff report on Commercial and Economic Representation Abroad, January 1973, CERP "has always been far more sensitive to external constraints, primarily budgetary, than to any attempts to determine needs objectively...A...useful provision would be a centralized mechanism for approving specific requests in the light of the statement of needs." This mechanism is now in being: The secretariat of the Subcommittee on Requirements and Coordination of the Economic Intelligence Committee annually produces a coordinated worldwide statement of priority economic, financial, and commercial requirements of the Washington economic community and tri-annually eight sets of regional Economic Alert Lists.

The Annual Statement

Action to Date. -- On 14 March 1973 the first "Coordinated Statement of Priorities on Economic, Financial and Commercial Intelligence Requirements Worldwide of the Washington Economic Community" was sent to all diplomatic and consular posts and missions by the Department of State (A-2251; Confidential). It set forth a list of broadly applicable, general priority subjects:

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Twenty
one different components of the Washington Economic Community coordinated this document.

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Proposed Action. -- The EIC Subcommittee will shortly issue this year's statement. In so doing, it has taken into account the comments that Treasury's USIB representative provided the DCI on 23 November 1973 on the draft of Key Intelligence Questions. His comments were based in large measure on conversations with members of the Council on Economic Policy and other key economic policy officials. The Annual Statement provides an additional means for notifying the field of their concerns.

The Economic Alert Lists (EALs)

Action to Date. -- The economic sections of CIA's Current Intelligence Reporting Lists have been broken out and expanded to include contributions from all the subcommittee participants and renamed. The EALs are the vehicles through which Washington economic analysts maintain a continuing dialogue with the field reporters. The analysts identify specific short-term gaps in their information picture, make requests for amplification of topics already being reported and suggestions for emphasis, and express needs that are within the reporting responsibility of one given collector.

At the time the EAL was launched, a sister document, the Economic Reporting Guide (ERG), was founded to parallel the CIA's Intelligence Reporting Guide. Like the EAL, the ERG was published in regional editions, but only on an annual basis. Its purpose was to express Washington analysts' general and long-term reporting needs, information needs of a current but continuing nature, and requests for periodic reporting. After a year of trial and, after receiving the comments from a sample of 30-odd posts, the decision was made to drop the ERG. Many of the continuing information needs were duplicative of those identified in the corresponding EAL. As for the long-term reporting needs, Volume 10 ("Economic Affairs") of the Foreign Affairs Manual (FAM) is now undergoing revision; it will be reissued in June 1974 and will incorporate the suggestions of Treasury's Office of the Assistant Secretary for International Affairs.

Continuing steps have been taken to improve the Economic Alert Lists. In response to the recommendations of a representative sample of ambassadors, the items have been reduced in number and sharpened in focus. This has been accomplished through the use of eight substantive review panels composed of specialists from CIA, State, Commerce, and

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Treasury. Currently, the regional affairs sections identify those national policy issues requiring intelligence support that dictate priority collection and reporting. For example, the Middle East/Southeast Asia EAL, March 1974, requests the posts to focus on the following areas of economic information:

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Proposed Action. -- A relatively recent publication, the EAL is current, topical, selective, and specific. Yet, it is a guidance document rather than an "instruction," which requires a mandatory response from the field. Individual collectors may determine in view of their local situation the manner and extent, if at all, to which they respond to EAL items in their formal program of reporting. This subject, worthy of more discussion, quickly leads into the subject of resources; because in general, the field response is a function of its work load. So that such a discussion, which would include OMB, will be meaningful, the EIC Subcommittee this summer plans to commence an evaluation of the EAL responses. At present, CIA's Central Reference Service is coding them in its "Aegis" information retrieval system. Often, however, the post does not slug the incoming message with the acronym EAL. Hopefully, over time, they will do so.

Depending on information needs and priorities, the periodicity and area coverage of the various area EAL volumes may change from time to time. Thus, for example, in January 1974 the Far East EAL was split into two books: (a) Southeast Asia and the Pacific, and (b) China and North Asia. In due course, this flexibility will enable the NIOs to make an appropriate input.

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Guidance to Intelligence Community Collectors

Collection tasking for CIA's DDO, NRO, and NSA, is provided by three USIB committees: the Interagency Clandestine Collection Priorities Committee (IPC), the Committee on Imagery Requirements and Exploitation (COMIREX), and the SIGINT Committee, respectively. Thus far, the EIC has only indirectly participated in the formulation of requirements for the IPC, and not at all with respect to the other two. Meanwhile, separate flows of stated economic-related requirements are fed into each of the three by separate CIA, State, and Treasury representatives. So that the collectors can be provided with an authoritative judgment of their relative importance and so that they can be systematically prioritized, the EIC will take the initiative. In so doing, the EIC Chairman, for the first time, will be in a position to note the many interrelationships among the various collection systems, overt and covert alike. This is a necessary first step, moreover, in "optimizing" the use of the overt system, which is cheaper, with respect to costs and risks.

Action to Date. -- The Executive Secretary of the EIC Subcommittee on Requirements and Coordination is also a member of the IPC. In this capacity, from time to time, he has brought before the committee those requirements submitted by non-USIB agencies for the Economic Alert Lists that may be appropriate for clandestine collection.

Proposed Action. -- As noted, the EIC Secretariat will be strengthened in FY 75, so that it will be able to perform the function of providing the USIB tasking committees with coordinated, prioritized collection requirements. The various agencies and departments that now submit their needs to NSA and DDO directly when they have an urgent matter will continue to do so on an ad hoc basis; but this procedure will become the exception. Additionally, the EIC Secretariat will now be able to monitor such special queries so that lines will not be inadvertently crossed and duplication of guidance will be minimized.

The EIC will work closely with the appropriate committees that are already engaged in requirements work, especially the SIGINT Committee. This committee, and not the Director of NSA, has the ability to task all SIGINT sensors. Finally, during the course of FY 75, the relationships among, and the operating procedures and functions of, the EIC, RAB, NIO/Economics, and ICS Economic Support Officer will be clarified, the aim being to achieve a more efficient, timely performance.

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SECTION III.
DETERMINATION OF INTELLIGENCE COMMUNITY'S CONTRIBUTION

As noted on page 1, Objective I requires that this step be taken in coordination with other federal agencies. The implication is that not all the "economic intelligence" as we have defined it, which is required by national consumers, is to be a task for the intelligence community. In a period of budgetary retrenchment, we should, in particular, optimize the use of the Foreign Service for collection purposes. Moreover, the answers to many requirements might well lie within the public domain, or could be met by an able economic research facility. In sum the, this section is the bridge between users' needs and a determination of appropriate resource levels for the intelligence community.

The NIO/Economics et al.

Early on, the newly arrived NIO/Economics will concern himself with the limitations of covert activities directed against economic targets, particularly in the Free World. Not only is this a costly way of conducting business, there is a political risk in operating against countries that historically we have considered our friends. In the present climate such efforts should be made only on a selective basis. Decisions of this nature, however, should only be made when it is already apparent that the overt collection capabilities of the departments of State, Treasury, and Agriculture have been exhausted. The use of the RAB mechanism -- with the NIO playing a key role -- will enable the intelligence community's managers to judge the degree to which requested intelligence support involves sensitive information.

The December 1973 PFIAB report recognizes that the Foreign Service officer is basic to economic intelligence collection.

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Indeed, the bulk of recent additional "economics" slots granted State by OMB, as a follow-up to the latter's staff report (see page 19 above) have been awarded to export promotional activities. It is becoming evident, therefore, that high-level intercession may be required. In the meanwhile, this subject should be placed on an early agenda of the NSCIC Working Group, with the aim of eventually bringing it to the attention of the Deputy Secretary of State. Pari

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The Intelligence Community Staff -- especially its Economic Support Officer -- will also play a major role in this process. In particular, as it develops objectives for community components and organizes studies and evaluations of their performance, the IC Staff will be affecting perceptions of the intelligence community's contribution. In effect, the ICS Economic Support Officer will perform as the managerial counterpart to the substantive NIO/Economics. Together, acting in complementary fashion, they will support the DCI under both his USIB and IRAC hats. A number of joint projects are already under way; viz., the KEP and two special studies, which now will be discussed.

The KIQ Evaluation Process

The KIQ Evaluation Process (KEP) was set in motion in mid-February 1974, on a pilot run. As has been noted, of the twelve KIQs selected for the initial exercise, two relate to the oil problem. Once the Baseline Reports are completed,

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they are simultaneously sent to CIA, DIA and INR, and three USIB committees, the SIGINT and Human Sources committees, and COMIREX. These committees, in turn, will concern themselves with rectifying the information deficiencies identified in the Baseline Reports. As the process proceeds, the NIOs for Economics and Energy and the program managers will in microcosm be addressing the question of what the intelligence community's contributions can and should be to meet the stated users' needs. Over time, as experience is gained, it is planned to employ this procedure for an ever-widening range of issues.

SIGINT Committee

In March 1974 its Intelligence Guidance Subcommittee identified the possible resource impact on the FY 76-80 consolidated cryptologic program, giving heavy emphasis to NSA's intelligence support for economic matters. Over time, the SIGINT Committee will be requested to provide active assistance to the Economic Intelligence Committee in response to the finding noted by Mr. Cherne, namely, "there remains a perception of gross inadequacy regarding the guidance for COMINT tasking on the part of NSA itself as well as by others in the Intelligence Community who feel more could be done by this agency."

Human Sources Committee

The Annual Report of the Central Intelligence Agency for FY 1973, 1 November 1973, includes a listing of overall objectives of each of its directorates. The objective that is relevant here calls on the DDO "to produce reports of value on the plans, policies, and internal stability of Free World or Third World countries."

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Nonetheless, and this can stand repetition, such collection efforts are undertaken only if the information required is not normally attainable by overt or diplomatic means. Having said that, and realizing that State reporting and open sources provide much of the information needed for policy-oriented economic research, there are specific areas in which only clandestine sources can provide the necessary inputs to round out the analysis of a problem area. Most often, these involve a foreign government's plans and intentions. Normally, targets with access to the required information are in the appropriate ministries (finance, economic, trade, food, and energy), or high government councils such as cabinets.

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Special Studies

As is readily apparent by this time, the economic intelligence producers have many links with the policy consumers, much of the "network" having been set up only within the past several years. With the new emphasis on economic reporting, needs were soon followed by the necessity of developing collection strategies. Thus, it was natural for OER, the principal analytical shop, to take the lead. It is currently evaluating applications of overhead photography, especially with respect to crops. And the drafts of two studies concerned with covert reporting have just been completed. Their findings should be of value to the resource managers and should point the way for future study.

Joint DDO/OER Study of Clandestine Collection of Economic Intelligence

In the spring of 1973 the DCI suggested that an informal committee composed of senior representatives of the DDO divisions and OER be established to examine the role of clandestine collection of economic intelligence. The joint study was launched some months later. It takes into account both the policymakers' needs and the realities of utilizing clandestine sources. It will be reviewed and emended by the NIO/Economics. Thus, when revised, it should assist the DCI and the DDO in making decisions that will determine the allocation of clandestine collection resources for economic intelligence over the next several years. It is, of course, not possible to provide any single list of priority needs that would satisfy all the demands of the analysts. Nonetheless, there are areas of priority concern, and OER's input to the study identifies these:

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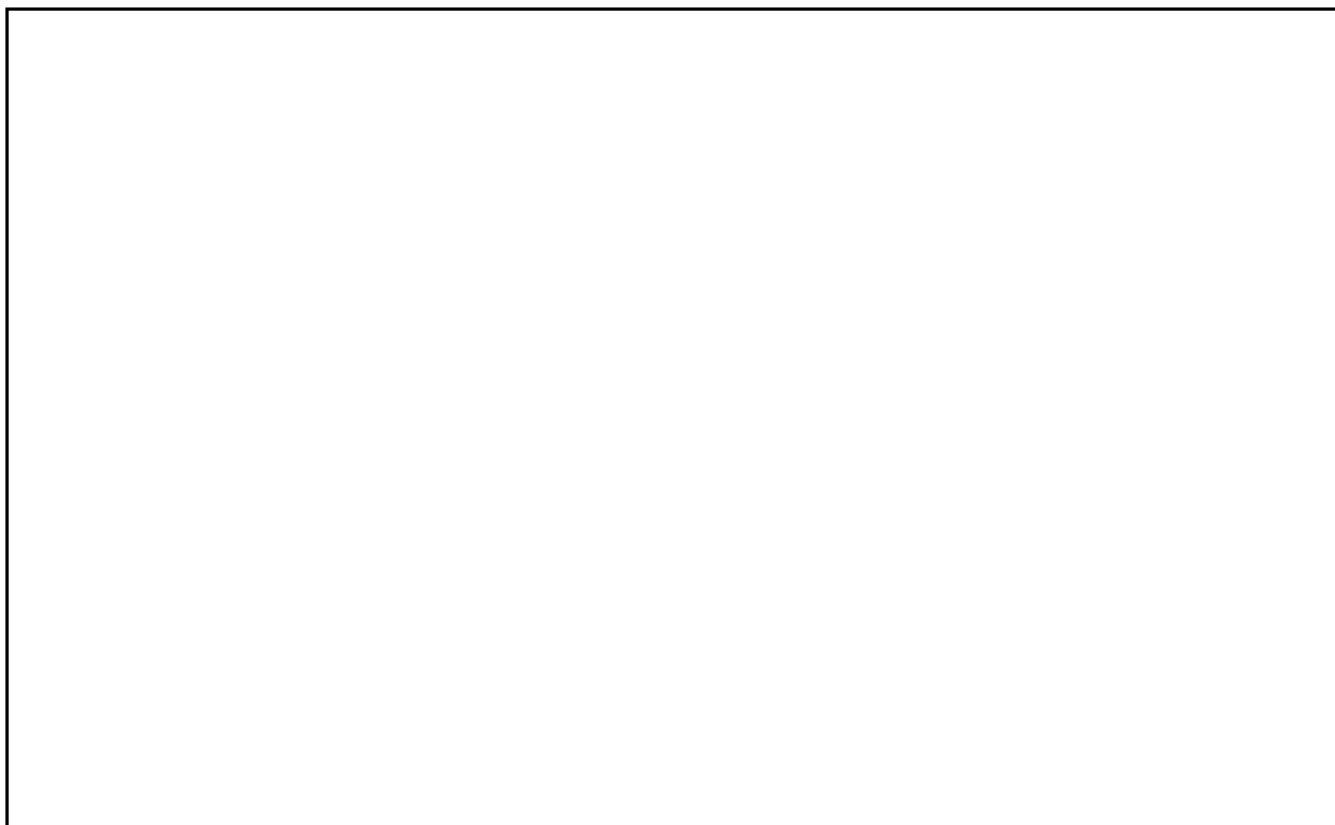
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In the real world, of course, risks of exposure cannot be set aside. The NIO/Economics, the DCI's representative, will provide strong and centralized direction to the DDO on the national requirements for clandestine economic collection. The KEP will allow him to review all the international economic intelligence operations of the US Government; in addition, the EIC and RAB will provide him with the judgments that should enable him to balance risk against probable return. Once it is determined the national need is worth the costs and the risks, the NIO/Economics will work with the DDO area divisions to sharpen their objectives. Until this is done, substantial uncertainties will remain as to the exact role of clandestine coverage of the economic scene.

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SECTION IV.DETERMINATION OF APPROPRIATE RESOURCE LEVELS AND
ASSIGNMENT OF COLLECTION AND PRODUCTION RESPONSIBILITIES

The validation of collection and production requirements is undertaken by USIB on a continuous basis. The community program managers then assume these as responsibilities. Now that the intelligence community is seriously constrained with respect to financial resources, it more than ever has to weigh the relevant opportunity costs before it embarks on new efforts. To take on an additional job, an old one may have to be stopped. Accordingly, the appropriate resource level for each intelligence function must be determined. Conceptually, this can be done by completing programmatic and topical resource studies, so that the resource levels can be allocated among the intelligence entities.

Role of IRAC

At this time, we can start only with the first part of this objective. And "determination" is a misnomer; the proper word is "examination." As successive iterations of substantive objectives are issued and refined, we can look forward to achieving the second portion of this objective, in fiscal years 77, 78, and 79. The principal mechanism the DCI will employ to fulfill this all-encompassing task is his Intelligence Resources Advisory Committee (IRAC), which he chairs, and which includes senior representation from the departments of State and Defense, OMB, and CIA. Over time, there may well be a coming together of the USIB and IRAC functions -- substantive matters and resource matters are intertwined.

By definition, "hyphenated" economic intelligence cuts across program lines. Rational planning of economic intelligence is not possible without considering the capabilities of all the collection and research efforts of the government, intelligence and non-intelligence alike. At the present time we are faced with a constantly moving target: with respect to US economic policy, the concerns, and therefore the appropriate roles of economic intelligence, are changing very rapidly. As a result, resource planning in this field, while necessary, is very difficult. Nonetheless, much can be done. For example, some elements of economic intelligence are more predictable than others. Most predictable are the requirements


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for collection and research on the USSR and China. The near certainty that these nations will remain, despite détente, basically antagonistic to the United States, and closed to foreigners, means that intelligence will have a major role in evaluating Soviet and Chinese economic capabilities and policies.

Action to Date. -- In March 1974 IRAC charged its working group to look at the total NIP, using CIRIS. To carry out this charge, the working group plans to examine the NIP by commissioning "cross-program" resource studies, e.g., SIGINT. The Economic COMINT Collection Study cited above (page 27) would be one of several inputs into such an exercise.

Proposed Action. -- Were IRAC to complete an assessment of the total SIGINT package, we would have a much clearer understanding of those resources, including overhead sensors, that could be retargeted to meet the high-level needs of "hyphenated" economic intelligence users (if the priorities were awarded). In practice, however, this is probably chewing off too much at once. An examination of the early returns from  might be more digestible. This more limited effort could be successfully concluded in the second half of FY 75. By that time, IRAC will be in a position to draw up the terms of reference for a topical (rather than a functional) cut at the resource problem, this time, perhaps, looking at political-economic collection. It would be undertaken in FY 76, when the relationships among the NIO/Economics, EIC, and RAB will have been sorted out. And it would include all the NIP resources allocated to economic intelligence collection broadly defined plus the appropriate activities of the Foreign Service. Resources would be identified with respect to target areas, subjects, investment, operational costs, and productivity. Hopefully, such a study would, amongst others, reveal opportunities to reallocate resources as necessary to improve collection vis-à-vis specific requirements.


Supplementary Resources

"Intelligence" is only one facet of a much larger universe. Let us assume, for example, the policymakers are concerned with the impact of the transfer of technology on the US balance of payments. It is quite apparent that intelligence should not be a focal point of the exercise though

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25X1 it will have something to contribute -- the study would have a US orientation, with intelligence chipping in with appropriate foreign-country aspects. On a somewhat different tack, yet related, is  finding that economic intelligence staffs have been spurred toward maximum output, with a consequent loss of quality. For these and other valid reasons, the analytical components of the intelligence community will strive to minimize duplicating the efforts of others, both in and out of the government.

CIEP Inventory...

25X1 Starting in August 1971, INR has prepared eleven issues of the Periodic Inventory of U.S. Government Studies for the CIEP Operations Group. Its main focus is on in-house, though not excluding external, research. It is a worthwhile endeavor and should not only be continued but upgraded.

Action to Date. -- In it OER reveals its on-going economic research program. Indeed, this is the only inventory of government-wide studies to which the CIA contributes. The inventory covers studies under 29 major categories ranging from natural resources to US economic relations. On more than one occasion, non-USIB agencies deferred or abandoned a proposed project once they spotted an on-going OER or INR/REC study.

Proposed Action. -- On a low-key basis, the EIC will offer to conduct annual sessions at which the Agency Action Officers will discuss their research programs, making suggestions that should reduce duplication of effort. In effect, the EIC stands ready to operate as a clearing house for this exercise. In time, hopefully, before the intelligence community is commissioned to complete analytic studies by senior-level economic policymakers, a judgment will be rendered whether or not studies already under way will either suffice, or satisfy part of the problem. Such judgments, inevitably, will be a function of the effort that goes into the preparation of the inventory.

...and Other External Research

INR also prepares seven related volumes for the Under Secretaries Subcommittee on Foreign Affairs Research (USC/FAR). Its aim is to further closer coordination of government research. For a number of reasons neither DOD's Advanced Research Projects Agency (ARPA) nor CIA makes inputs to the exercise.

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Action to Date. -- Recently, the IC Staff established a position for a Coordinator of Internal Research (who will also monitor development of new analytical methods and techniques). An example of how he serves the producers will be instructive.

This past fall PFIAB raised the problem of covering Soviet economic activities in the United States, which includes the subject of scientific and technical exchange with the USSR and the degree to which the USSR is exploiting the relationship. At the same time, a USIB member asked the question, "What impact will greatly expanded trade have on Soviet military capabilities over the long term?" It is evident that these two topics are associated. It is also evident that much work directly related to these topics is being accomplished in many quarters. Only after a check by the ICS Coordinator was it determined that ARPA has a sizable contractor effort dealing with the impact on the DoD of exchanging technology with the Soviet Union (and China): four think-tanks are working on pieces of these

academia in the field of technological innovation, some of which is germane to the subject.

Proposed Action. -- The NIO/Economics and the Coordinator, working together, will provide guidance to contract managers, e.g., ARPA, so that the contractors' work will meet the needs of a wider government audience. At the same time, they will alert the analytical community, via the EIC, to the external research activities under way that, in due course, might well be of use to them. Correspondingly, the EIC will consider reviewing the FAR volumes to determine whether its clearing-house operation for in-house government research would benefit from a participatory role in the external research world.

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